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Version: Accepted Manuscript

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Governance and different types of value. A framework for analysis

Silvia Sacchetti
The Open University and Euricse

Ivana Catturani
University of Trento and Euricse

(First draft December 2015. Revised March 2017)

Euricse WP (forthcoming)/2017

ABSTRACT

Production governance is not detached from the effects it produces. This paper suggests a framework to assess coordination structures and mechanisms in terms of their ability to include the publics and their interests, and to generate socio-economic value consistently with those interests. To this end, the framework considers a combination of resource integration mechanisms (contract, authority, cooperation) and structures (markets, exclusive organisational structures, and inclusive organisational structures). These combinations are analysed along key features: information, knowledge sharing and co-creation, involvement and empowerment, as well as alongside some specific functions of governance (legitimacy, cognition, interdependence). The value added is in identifying criteria for appreciating diverse ways of integrating and coordinating resources, and the associated effects, thus providing both scholars and practitioners with a tool to discriminate amongst alternatives.

1. INTRODUCTION

The underpinning idea of this work is that there is a relation between the features of production governance and the effects that governance produces. Such relation goes beyond the economic efficiency of the individual firm and can be extended to stakeholders and society more broadly. So far, literature on governance has analysed the impacts of governance on firm performance, mostly in terms of economic efficiency for the growth of shareholder value (Kappler and Love 2004; Beiner et al. (2006); Black et al. (2006);). However an integrated approach that considers broader effects, or effects on a variety of stakeholders and on society more broadly is missing. This paper builds on the concerns raised within business ethics and links governance features to their broader impacts (Blair, 1995; Sacconi, 1991; Sacchetti, 2015).

Building on the strategic approach framed in Cowling and Sugden (1998), Zeitlin (1974), Hymer (1972), we consider governance as the set of rules that define access to interconnected layers of decision making. These layers are as a norm hierarchically structured. The top layer is the one where strategic direction is defined. The intermediate level coordinates the strategies defined at the top of the hierarchy with the operational level, at the bottom of the hierarchy. Access to the different layers is defined by the level of strategic control. The central question in this approach to governance is who holds strategic control or, in other words, who decides about what is to be produced, how production is organised and how surplus is distributed. These issues are of relevance for a variety of groups who are not, despite their interests, involved in strategic control. The consequence of concentration of strategic control as against its wider impacts is the source,

in the approach, of strategic failure, or failure to include the interests of the excluded in production decisions that affect them and society (Sacchetti and Sugden, 2009, 2010). Following Dewey (1927) we refer to excluded communities of interest as "publics."

The reality of economic development is therefore characterised by inequality and uneven development (Hymer, 1972). The question, is how economic reality can move away from concentration of strategic control. This is clearly a governance issue, and a challenge to find different forms of coordinating production resources that recognise and include the multiple interests involved and the broader public interest.

Broadly, governance literature has placed emphasis on aspects of cost minimisation, under assumptions of bounded rationality and asset specificity, or alternatively on the distribution of strategic control power. Literature has developed in the context of the modern corporation operating within neo-liberal market institutions, which rely on the existence of contracts, private property, and re-distributive role of the State. A common assumption on behaviour is that actors pursue their own self-interest, even at the detriment of others (Zeitlin, 1974). Approaches have placed emphasis, alternatively, on the ability of the governance model to a) reach internal efficiency (Coase, 1937; Williamson, 1973), or b) to maximise strategic control over stakeholders, even to the detriment of the latter (cf Cowling and Sugden, 1998 for a critique), or c) to determine an effective cognitive framework to manage complexity (Loasby, 2006).

These approaches can coexist in explaining aspects of production governance, and in evidencing the prevalent principles that underpin control structures and coordination tools. Still, in the study of governance, analysis tends to take one perspective, often focusing on internal efficiency to the benefit of one specific stakeholder (e.g. the stockholder). By focusing on internal efficiency, analysis explains forms of coordination that are useful to minimise ownership and contractual costs under different conditions defined by uncertainty, bounded rationality and the specificity of assets (Sacconi 1991 for analysis). The cost minimisation criterion, however, cannot explain forms of production governance that are inclusive of multiple interests and which can help a movement towards a reduction of exclusion and failure to address diverse societal needs, as denounced by strategic failure scholars. This happens because it is erroneously assumed that transactions with excluded stakeholders occur in competitive markets, thus ensuring optimal solutions for non-proprietors stakeholders. Instead, assuming the presence of market power, governance has been studied from the point of view of its institutional capacity to address the interests of stakeholders whose interests are not mediated by the market. These contributions analyse structures and rules that are able to balance a diversity of interests and powers, and to encompass multiple sets of motivations. Such are organisational models studied by cooperative governance scholars, such as Borzaga, and Tortia (2015); Borzaga et al. (2014), Borzaga and Sacchetti (2015). A similar logic can be also applied to the study of the governance of networks and public, private and civil society partnerships, as in studies of collaborative governance where the search for "collaborative advantage" takes central stage, Cf. work by Hauxham (1993), Vangen and Huxham (2010) and Vangen et al (2014).

With the framework suggested in this work, we assess coordination structures and mechanisms

in terms of their ability to include the publics and their interests, and to generate socio-economic value consistently with those interests. The value added is in identifying criteria for appreciating diverse ways of integrating and coordinating resources, and the associated effects, thus providing both scholars and practitioners with a tool to discriminate amongst alternatives.

2. HOW DO WE STUDY GOVERNANCE?

Sacchetti (2015) argues that governance is one of the key elements that differentiates the ethical dimension of production organisation, since it influences the distribution of resources and the nature of outcomes. The core function of governance is to coordinate the development of answers to an acknowledged problem. With this aim, formal and informal rules are functional to framing the modalities for accessing strategic control.

The question for us, therefore, is how to appreciate the variety of governance structures in different situations, and their likely effects. In order to do so, the paper develops a framework for studying production governance models. Building on Borzaga et al. (2016), the purpose is to appreciate the specificities of alternative modes of allocating decision-making, starting from a fundamental distinction between the mechanisms (contracts, authority, cooperation) used to integrate resources, and the structures underpinning such tools (the market, exclusive hierarchies, inclusive structures). Specifically, the nature of production governance is appreciated by:

A) the specificities of the integration mechanisms and structures, which define how control over the strategic direction of the firm is located (Williamson, 1973; Ostrom, 2005; Sacchetti 2013)

B) the functions of structure, which identify the sources of legitimacy of each model, how actors' interdependencies are regulated, and how the cognitive framework within which decisions are taken is framed (Fulton et al, 2015),

C) The effects of different governance forms in terms of moving towards greater inclusion of publics.

3. COORDINATION MECHANISMS

From the point of view of the efficiency of transactions, coordination amongst economic actors is aimed at allocating and distributing resources according to shared criteria, harmonising behaviours and make them consistent with the firm's goals, as well as fostering consistency of aims and decisions taken by managerial and organizational bodies. From a production efficiency point of view, coordination favours consistency in investment decisions especially when asset specificity is high, and when economies can be grasped from modularity, scale and scope,

information sharing and innovation (Williamson, 1973; Brusoni et al. 2001; Bruoni and Prencipe, 2001; Lorenzoni and Lipparini, 1991). The complexity of production coordination depends on various elements, such as the nature of the resources available, the features of the value chain and of division of labour amongst organisations, strategic capabilities, size of the enterprise and the articulation of its governance, the nature and role of the stakeholders within the value chain, their access to information and power to influence strategic decisions and use of resources.

Amongst the mechanisms used to coordinate and integrate resources, specifically we identify: contract, authority, and cooperation (Borzaga et al. 2016). It should be noted that the three mechanisms are not exclusive (Figure 1). The same organization may use authority to organise internal transactions amongst organisational divisions when asset specificity and information asymmetry is high, and use contractual solutions to trade with some of its suppliers. It can at the same time engage with other stakeholders through cooperative relations, for example a worker cooperative would engage members through cooperative relations, use contracts with non-strategic suppliers, and establish cooperative partnerships with more strategic suppliers, for example by investing in the development of joint assets. Cooperative relations can extend to competitors, for example in pursuit of a particular goal—e.g. the creation of a vocational school to improve localised learning and access to specific skills. The inclusion of more than one mechanism reflects the assumption of multiple situational contexts, but also multiple motivations and behavioural attitudes.

3.1 Contract

According to the principal-agent theory, the main goal of the contract is to align actors' objectives. Given the presence of power asymmetries, actors can be considered as principal and agent (Hill and Jones, 1992; Jensen and Meckling, 1976). The principal delegates to the agent the supply of goods or services. The agent performs his tasks thanks to driven by incentives aimed at avoiding any free-riding behaviours. Both parties are in this case motivated by self-interest and they will try to get the maximum benefit from the exchange. The relation between the principal and the agent is specified by the contract. Typically, other extra-contractual dimensions of the relation are not considered. Under the assumption of independence and self-seeking behaviour, both actors might deceit each other and act against the other party's interests, even against contractual agreement. Since the relation is purely contractual, once the contract expires, the two actors have no obligation to continue the relationship.

The more complete and accurate the contract, especially in including uncertain scenarios, the lower the chance of having ex-ante opportunism and ex-post litigation. Traditionally, economic theory forecasts that the larger the firm, the higher the ex-ante and ex-post contractual costs. However, according to the approach defined in this paper, contractual costs are related with the coordination mechanism in place and not necessary related with the firm's size, even if as size increases contractual costs are likely to grow.

Contract is deemed to be a sufficient mechanism for interaction when incompleteness does not

place the weakest stakeholder under excessive risk of opportunistic turns from the other party (Hansmann, 1996), or when the substantive elements of the relation do not have marked immaterial characteristics (e.g. intrinsic motivation) (Cf. Borzaga and Sacchetti 2015; Borzaga and Tortia, 2015 amongst others). Contracts are consistent with market structures, where the exchange of equivalent goods is the basic interaction element, but also within hierarchies, where internal contracts regulate relationships between organisational units or between the employer and the employee. In all these circumstances, a certain degree of cooperation is required to abide with the contract and to manage unforeseen circumstances. Contractual relation remains the main coordination tool, however, and cooperation is deemed as "superficial" (Ertell, 1957; cited in Blackwood, 1977). According to Ertell (1954), superficial cooperation does not touch institutional individualities, identities or programs. Rather, as noted in Thompson (2015) it is based on contractual obligations or, in the case of market exchange, on an occasional sharing of resources. Superficial cooperation, as explained later in the paper, is consistent also with authority, which can feature also in contractual relations (Sacchetti and Sugden, 2003).

3.2. Authority

In the theory of the firm, authority is deemed necessary because actors' interests and goals are assumed to be unaligned, and authority is used to direct the agent's behaviour towards the principal's expectations (albeit monitoring costs can be high when involvement in decision making is absent). Direction of one actor upon another is possible because authority implies that actor A agrees to act under the direction of B in a specific sphere, which is typically associated with ownership (Sacconi, 1991).

This means that authority works within a structure based on uneven distribution of the strategic control function between A and B. However, as Sacconi (1991), Grandori (1997), and Cowling and Sugden (1998) suggest, authority is not necessarily related with ownership. Conversely, the consolidation of ownership does not need authority as the dominant coordination mechanism. Hence, more broadly, authority can be defined as the power to influence another actor's will, with or without ownership (Sacchetti and Sugden, 2003). For example, authority may be embedded also in contractual relations, as between employer-employee, when there is a power asymmetry between the contracting parties (ibid.). It is present also in cooperative organisations based on membership, in order to manage the cooperative agreement.

3.3. Cooperation

Ertell talks of "deep cooperation" as a more integrated level that happens at the grass roots of an organisation (Blackwood, 1977). We reinterpret this with Polanyi (1944) and presume that deep cooperation cannot occur across hierarchical levels, whether top-down or bottom-up, but mainly in symmetric structures, where actors occupy mutually dependent positions (Sacchetti and Sugden, 2003). In other words, deep cooperation is a level of cooperation that occurs where there is shared understanding on their role and actors rely on mutual expectations and trust,

beyond what contracts can specify and unlike authoritarian-subordinate relations. Attitudes towards deep cooperation are matched by expectations of reciprocity amongst peers, which is enabled by a governance structure where access to strategic control is shared equitably (Borzaga and Tortia, 2015). The relevance of cultural elements in explaining work-related values and why cooperation can prevail on authority have been explained in Hofstede's seminal work (Hofstede, 1983).

It should be noted that reciprocity differs from exchange in important ways. In fact, exchange asks for an equivalence (at least supposed or perceived by both parties) between the goods exchanged between actor A and actor B. Reciprocity follows a principle of equity and does not necessarily occur between two actors (say A, the giver and B, the receiver) but it could involve a third actor, C, who could receive from B as an act of reciprocity of B towards A (Polanyi, 1944).

The most obvious cases of deep cooperation is when ownership and consumption, as in consumer cooperatives, or ownership and work coincide, as in small family-owned firms or in the case of worker cooperatives amongst workers. Deep cooperation can occur, to some extent, also when the firm is owned or managed "progressively" by the management, which adopts a human-centred approach to workers' relations (McGregor, 1960; Maslow, 1998), privileging participation, fairness, and workers' self-actualisation. Workers feel committed and, in some cases, they identify themselves with the firms' objective. As a consequence, evidence suggests that workers are more productive and industrial relations scarcely conflictual (Huselid, 1995). Cooperation, however, does not exclude the presence of authority or contracts in the same organisation.

In networks, similarly, examples of deep cooperation come from the Marshallian industrial district. Here localised firms gain static and dynamic efficiency thanks to economies generated by spatial proximity, but also by institutional and relational proximity, which refer to shared norms and rules of behaviours, leading to relations based on reciprocity and trust. Industrial district scholars have emphasised that institutional and relational proximity discourage opportunistic behaviour and facilitate the development of a "dense knit" of production interconnections (Camagni and Capello, 2002).

Likewise, the work of Ostrom (1990) on the management of common pool resources has evidenced that deep cooperation is grounded on the ability of users and other institutional actors to communicate and preserve some degree of relational proximity, leading to the definition of shared, binding rules. Here, again, cooperation does not exclude the presence of authority, which is needed in order to monitor and enforce agreements.

4. COORDINATION STRUCTURES

So far we have addressed three different resource coordination mechanisms: contract, authority, and cooperation. To these integration tools correspond very different supporting structures: the market, exclusive hierarchies, inclusive structures (Figure 1) (Sacchetti, 2015; Sacchetti and

Tortia, 2015; Sacchetti and Sugden, 2003).

Figure 1 - Coordination and control structures with prevailing resource integration mechanisms

MARKET	EXCLUSIVE GOVERNANCE	INCLUSIVE GOVERNANCE
Contract Authority Cooperation	Contract Authority Cooperation	Contract Authority Cooperation

Market relations, typically contractual, have been justified in terms of the convergence between different but complementary goals, which are quantified by a price. Actors' choices are mainly driven by self-interest since interactions have not a long term temporary horizon. Moreover, industrial organisation has emphasised that when decision-making power and information are not equally shared, markets become unbalanced and stop allocating and distributing resources efficiently.

In parallel, organised transactions have been presented as a solution to the costs of using market transactions. Hierarchical structures can take different forms. Here we are interested in discriminating them along the degree of access to strategic control. To this end, Sacchetti (2015) identifies exclusive and inclusive governance structures. In exclusive hierarchies, actors are connected through asymmetric power relationships, where the strategic decision-maker A exercises its authority over the directed agent B. The specificity is that the strategic decision-makers' choices overtake all other interests. Typically, the owner's preferences and interests define the aims and drive the decision making process, albeit we could equally talk of top management's preferences. The crucial point here is that strategic direction power is concentrated, whether the controlling group is made of owners or managers. Therefore, failure to consider broader implications on those excluded from decision making can be considered as a consequence of an exclusive governance structure (Cowling and Sugden, 1998; Sacchetti 2015; Sacchetti and Sugden, 2003).

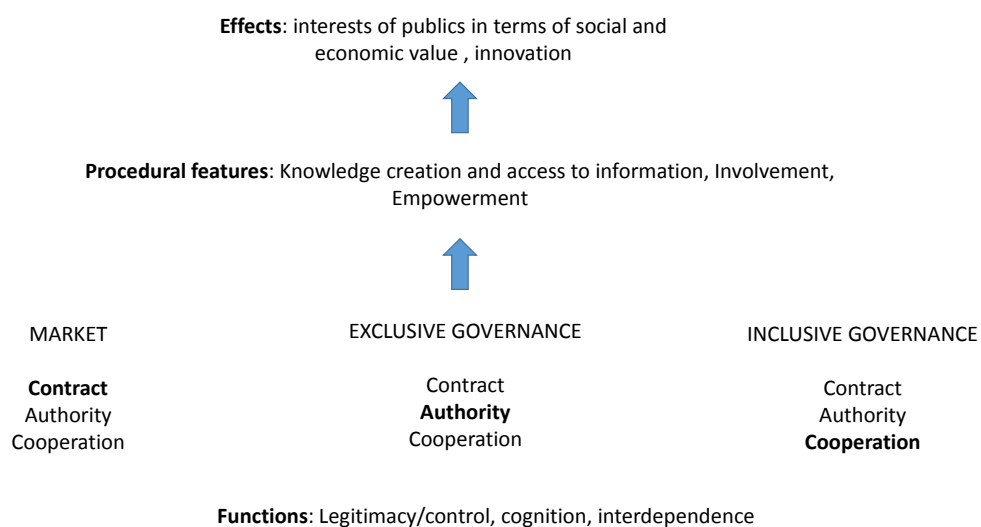
Despite failures, the theory of the firm presents limitations in finding alternatives and moving away from exclusive hierarchies. The difficulty with the theory of the firm is that inclusion in strategic control is contemplated amongst peers with homogeneous interests, but not across the hierarchical line that connects stakeholders at different levels. Within a hierarchical structure, contracts can still regulate the relations among actors, especially between those with no property rights. But it is the authority principle that attributes the power to define strategic direction, that guarantees control and monitor transaction costs. Given the uneven nature of a layered command-and-control governance structure, reciprocity would have a marginal role, since - as Polanyi (1977) observed - it operates only amongst peers. Even within hierarchy, however,

voluntary cooperation may emerge amongst workers with a "jobholder" attitude as in Akerlof (1982) and Akerlof and Kranton (2005), or in terms of what Williamson (1985) calls "consummate cooperation," or the positive job attitude that elicitate effort towards initiative, judgement and actions towards unresolved gaps (Fehr and Gächter, 1998).

Conversely, in a purely inclusive structure, all relevant stakeholders are involved in the decision making process. Stakeholders are engaged and actively participate in the firm's venture with or without property rights, but the responsibility about the sustainability of the firm is distributed among stakeholders and so are the statutory rights. This means that they are represented in the governance boards of the organisation and that managers are legitimised to pursue multiple interests rather than those of one stakeholder only. Reciprocity and cooperation are the main resource integration mechanisms, even though the use of a market or of authority (e.g. by the board), are not in contrast with this institutional setting. The difference with respect to exclusive hierarchies is that here authority is justified alongside a pre-agreement amongst stakeholders that such authority will be used alongside equity and inclusive criteria. As in Sacconi (1991), stakeholders legitimise authority as long as results are distributed equitably and stakeholders' interests are represented when defining the firm's strategic direction.

5. PROCEDURAL FEATURES

We now ask what elements can enable an equitable distribution of results and representation of multiple interests. These can be tied to some critical stakeholder integration processes that differentiate coordination structures: information sharing and knowledge creation, stakeholder empowerment and involvement. Figure 2 below illustrates the framework and, concerning our question, it positions procedural features with respect to coordination structures (while their functions and effects will be the focus of Sections 7 and 8).



5.1 Information and knowledge

The issue of information sharing in governance has been debated by many authors in different fields. Information can be understood as the raw data being transferred from a stakeholder to the other or shared in the local environment. Differently from information, knowledge requires a cognitive process of sense-making and critical thinking. Knowledge formation is dynamic, and intensive in time and capital--i.e. social, human and physical capital. Thus information is potentially available to everyone in a certain context, e.g. in the form of production inputs. However, the capacity of selecting and collecting relevant information for a specific goal would need specific capacities on the recipient side. Moreover, the speed at which information circulates determines the efficiency of the knowledge accumulation process and creates gaps and divides among various groups of stakeholders, across geographical and social settings (Sacchetti, 2004). In his seminal work, M. Polanyi (1966) analysed the process of "knowing" through learning by doing and practicing. The personal nature of the way people learn has implications for the way in which knowledge can be transferred. In particular, Polanyi argued that personal knowledge can be transmitted through master-apprentice relationship or more generally through day-to-day work and relationships amongst actors. Part of our personal knowledge (also known as tacit knowledge), however, can be codified and, therefore, made independent from the inter-subjective relation between two individuals. In industrial innovation literature, codified knowledge takes the form of blueprints, codes and rules that can be read, interpreted, and divulged among people who can properly de-codify the text. In their seminal work, Nonaka and Takeuchi (1995) have applied Polanyi's analysis of knowledge creation and diffusion to the firm. With their knowledge spiral model, they suggest that, within the firm, codified knowledge represents "only the tip of the iceberg" and that most of the relevant knowledge is personal, hard to recognise and formalise (Nonaka and Takeuchi, 1995, p. 3). They acknowledge that tacit and codified knowledge can interact, but only within an interpretative process that is essentially social.

5.2 Stakeholder empowerment and involvement

The second element that characterises governance is the empowerment of stakeholders. Empowerment research has flourished in community and organisational studies (Perkins and Zimmerman, 1995). Amongst the many definitions, there is a common element that tends to emphasise empowerment as a process that involves "mutual respect, critical reflection, caring, and group participation, through which people lacking an equal share of valued resources gain greater access to and control over those resources" (Cornell Empowerment Group, 1989). In their research on organisational empowerment, Gandz and Bird (1996) describe the empowerment of people as the "organizational revolution of the 1990s" (p. 383). However within organisations, empowerment has not always gone in the direction advocated by community scholars. In organisation studies, the most studied form of empowerment refers to workers,

albeit other forms of empowerment directed to different stakeholders exist, e.g. towards consumers or suppliers. In this context, empowerment tends to be approached as a strategy aimed at increasing the performance of the organization (Cf. Wilkinson, 1998). These outcomes can be generated in different ways. Gandz and Bird (1996) identify, different forms of empowerment: (i) role empowerment, related to the discretion of workers on their own work; (ii) reward empowerment, which refers to the quality of workers' performance; (iii) process empowerment, that enables workers to affect the design of organizational process; (iv) governance empowerment, thanks to which workers participate and influence the direction of the organization. The first two relate to day-to-day tasks, the third to processes, and the fourth to strategic direction.

Differently, involvement can be thought as a pre-condition of empowerment. Involvement can be limited to an advisory opinion without a sharing of the decision making power. In this case, the stakeholder might increase its reputation by participating, but without being empowered its decision-making role is not recognized. More commonly, however, one would expect that stakeholder involvement results in a process of empowerment. Albeit a degree of equilibrium between the involvement and empowerment levels is not always respected and this may generate conflict. Involvement can take different forms and feature diverse degrees of participation occur, like empowerment, at different levels. In general, it reflects the extent to which multiple interests and reciprocal interdependences enter in the definition of the four levels identified by Gandz and Bird. The strategic decision-making level ("governance empowerment") is the most relevant for our perspective. Our take on the desirability of involvement is different from contributions focusing on contingency elements of corporate governance. For example Aguilera et al. 2008 argue in favour of involvement only when firms reach the maturity stage. They suggest that at the initial stage, innovation and growth are the pivotal goals for enterprises. What matters is the firm's bottom line, which can require exclusive governance. Taking into account stakeholder's voice becomes more important as the firm moves along its life-cycle, at a more mature phase, when involvement becomes functional to manage production relations along the value chain to reduce the need for control on subcontractors and younger firms (Aguilera et al., 2008). Differently, according to the approach used in this paper, the degree of stakeholder involvement is related to an explicit choice to share decision-making power and build relations on cooperation and reciprocity (specifically deep cooperation), and not to contingency elements (Sacchetti and Sugden, 2009; Sacchetti, 2015).

6. BRIDGING ANALITICAL ELEMENTS

6.1 Knowledge

6.1.1 *Knowledge, contracts and the market*

The analysis of M. Polanyi (1966) and Nonaka and Takeuchi (1995) suggests that when the prevailing coordination mechanism is contractual exchange, and the basic structure is the market, a large part of relevant knowledge cannot be accounted for, since through contracts knowledge

can only be treated if commodified, and identified via intellectual property rights. This system clearly captures only patentable knowledge, whilst leaving out the tacit knowledge that may sustain the entire production and innovation process. Property rights are in fact the expression of knowledge that can be codified and, because of the nature of knowledge, they are meant to be incomplete expression of what is known. In markets, property rights are paired by contracts, whose function is to rely on existing information to describe possible scenarios aimed at solving the agency issue by virtue of a scheme of incentives and constraints that should induce actors to avoid opportunistic behaviours. Lack of cooperation, especially, damages the circulation of information, as institutional scholars such as Heath (2001) and Brandom (1994) have highlighted.

6.1.2 Knowledge, authority and exclusive structures

Consider now authority-based coordination within the exclusive governance structure. Information concerning strategies and operations is managed hierarchically according to a top-down approach. In order to transmit information from the strategic centre of the firm to stakeholders, the main tools are light forms of social responsibility or reports used to comply with the regulatory requirements. In terms of production knowledge, likewise, the exclusive governance structure reflects principles of knowledge fragmentation, as in factory production. At the opposite extreme is the artisan system, whereby production knowledge is mastered holistically by the artisan. Critical economic approaches have analyzed the limitations of extreme specialisation and fragmentation, stressing, for example, phenomena of alienation and disconnection between the individual and its job task, which occur when production governance deprives workers of a comprehensive learning experience (Marglin 1974; Adaman and Devine 2001; Screpanti, 2001; Sacchetti, 2004).

6.1.3 Knowledge, cooperation and inclusive structures

Socialisation of knowledge, as well as information sharing define the nature of deeply cooperative interactions. We typify knowledge socialisation as a feature of cooperative interactions especially within inclusive governance structures. Co-production of knowledge and a circular and constant exchange of information, necessitates relational and institutional proximity among stakeholders, thus reinforcing deep cooperation and feeding back to improve knowledge socialisation and the sharing of information. The nature of cooperative relations and knowledge sharing is circular, rather than merely horizontal. This happens thanks to the dialogic and participatory nature of decision-making processes, as well as by virtue of production organisation. On the one hand, the inclusive governance structure aims at creating decisional processes based on enquiry, which acknowledge and use diverse stakeholders' knowledge, as the one embedded in each and every stakeholder's experience (Sacchetti et al. 2009). The inclusive, dialogic process is aimed at promoting processes of creativity, learning, information interpretation and enquiry, (Dewey, 1927) as well as to motivate stakeholders (McGregor, 1960; Hirschman, 1982). On the other hand, in the inclusive structure, knowledge is socialised by

means of the production process itself, whereby individuals understand and can attach meaning to the entire production process. The co-creation and sharing of knowledge in the process of production is crucial, since it underpins the dialogic process at several levels, including where decisions regarding the direction of activities are taken (Sacchetti, 2004).

6.2 Stakeholder involvement and empowerment

6.2.1 Involvement, contracts and market

Within the market structure, actors interact through arm-length relations. Involvement, as a process of co-determination of strategic production decision, is weak or not present (Sacchetti and Sugden, 2003). Stakeholders agree on a contract and they can act independently from each other within the remit of the contract specifications. They may exercise some degree of power in the negotiation phase, depending on the strength of the contractual position, before finalising the contract. However, once the contract is signed, the use of voice is very limited or not contemplated. In the impossibility to renegotiate the contract, defection is possible.

6.2.2 Involvement, authority and exclusive governance

With exclusive governance structures, coordination occurs by means of authority and command-and-control mechanisms, whilst the power to define the firm's strategic direction is concentrated in the hands of a restricted group (Cowling and Sugden, 1998; Sacchetti, 2015). However, introducing stakeholder theory, Freeman and others have provided traditional firms with a justification for stakeholder engagement, even in the presence of exclusive governance (Freeman, 1984). Stakeholder theory has synthesized why communication and conflict resolution between diverse and contrasting interests may lead to higher value creation for the firm, without however challenging the nature of corporate governance (Freeman, 1984; Clarkson, 1998; Freeman et al. 2007; Freeman et al. 2010).

6.2.3 Involvement, cooperation and inclusive governance

Differently, with inclusive governance the involvement of stakeholders is pivotal for achieving organisational aims. Actors are fundamentally interdependent, with respect to decision-making, knowledge, other resources and opportunities. In this case, coordination based on deep cooperation and reciprocity, as well as the modality of learning and knowledge creation engender a circular system of relations. The inclusion of multiple stakeholders and their interests is the rationale underpinning the governance structure, rather than a mean to the pursuit of exclusive interests.

6.2.4 Stakeholder empowerment

Considering the features of contractual involvement and involvement within exclusive hierarchies, we can conclude that "governance empowerment" is absent within a market structure, while it is marginal or not fundamental in exclusive governance structures. Within an

inclusive governance structure, on the contrary, each stakeholder has the power to co-determine the direction of the firm and share results. Differently from stakeholder theory, inclusive governance associates an active and strategic decision-making role to stakeholders.

The processes (informing, knowing, involvement and empowerment) are coordinated by means of cooperation and reciprocity, which have the effect of enabling a more equal distribution of resources. While the involvement/empowerment category is fundamental, the other two are functional (implicit) in the empowerment feature.

7. GOVERNANCE FUNCTIONS

We complete our comparison of coordination mechanisms and governance models with and analysis of governance functions. Fulton et al. (2015) take into account three functions of a governance system: legitimacy, cognition and interdependency. In their conceptualisation, interdependence describes the degree of cooperation and coordination that exists between and among individuals or groups; cognition refers to the amount of information that can be brought to bear on decision, legitimacy includes the degree to which people with power and authority are seen to be properly appointed.

7.1 Legitimacy and coordination structures

The source of legitimisation in markets is the ownership of some good, which is exchanged for a price according to each actor's best interest. This of course works as long as there are no asymmetries, which may not be the case. Theory suggests that conflicts are resolved either *ex-ante*, before the contract is finalised, or *ex-post* through contract enforcement.

Within the exclusive structure, legitimacy follows from the allocation of decision-making power, which coincide with the attribution of authority. In exclusive structures this authority is with a restricted group of decision makers at the pinnacle of the hierarchy. Its main function is one of exercising control. Because knowledge creation does not involve stakeholders, actors in power use an exclusive cognitive framework, which has the effect of restricting their horizon of possibilities and generate costs for the excluded (Sacchetti, 2015).

On the contrary, the inclusive governance structure empowers stakeholders to partake in decision making. Through the process solutions gets legitimised by actors, although this procedure is not immune to conflicts. However, contentions are addressed through discussion and deliberative practice. The inclusive decision making process may imply higher costs of decision-making with respect to other governance systems, but it can be more effective in enhancing stakeholders' needs, in avoiding unwanted outcomes, and in reducing the costs of conflicts and opportunistic behaviours (Borzaga and Sacchetti, 2015).

7.2 Cognition and coordination structures

Cognition describes the capacity of decision makers to anticipate, to some extent, possible scenarios and to take the best steps given a certain level of uncertainty. The functions of

contracts include the anticipation of risks and possible situations. The goodness of a contract is partially related to its capacity to include the highest number of scenarios, albeit with the acknowledged problems of incompleteness and, therefore, costs attached to unanticipated sources of conflict. Uneven information and knowledge access, however, generate cognition unbalances and may limit the overall fairness of markets. In these cases, not dissimilarly from exclusive structures, authority may be exerted also through the market, by the actor who holds greater access to strategic resources (Sacchetti and Sugden, 2003).

Exclusive coordination structures, on the other hand, are more static with respect to market solutions, they guarantee a less complex scenario, since it will be focused on the interests of the restricted group who is legitimised to determine strategic direction, at the cost of reduced involvement for others.

On the contrary, in inclusive governance, the creation of a cognitive framework is achieved through the more complex process of deliberation. The amount of information to be processed is broad and heterogeneous given the inclusion of various stakeholders, their experience and needs. In this case, it is the deliberative process that empowers stakeholders to partake in knowledge creation. In particular, learning is based on shared experiences which are brought together to form a coherent cognitive framework through a deliberative process of enquiry and critical thinking (Dewey, 1927; Sacchetti, 2015). Those legitimised to lead the deliberation process should be able to interpret the needs and the frictions of stakeholders and adopt the adequate solutions. The identification of relevant positions is fundamental to define the core of the issue. In order to reduce the complexity of the decision process, sophisticated tools have to be developed for extracting the most strategic perspectives, consistently with the principles of reciprocity and cooperation (Borzaga and Sacchetti, 2015; Fairbairn et al 2015; Fulton et al. 2015).

7.3 Interdependence and coordination structures

The competitive market structure features basic interconnections but does not theorise interdependence. Connections are based on exchanges intermediated by prices and contracts. Interdependence is recognised only if tradable, otherwise it is not considered, as in the case of externalities.

In the exclusive structure, interdependencies may be recognised, despite a biased cognitive framework, but will be considered only if they are functional to the interests of the governing group (Sacchetti, 2015).

In the case of inclusive governance, interdependencies are explicitly recognised and integrated in the coordination model. The norms and nature of the relations among actors is thought to affect the capacity of the firm to acknowledge interdependencies and reduce failure in meeting the interests of multiple publics (Dewey, 1927; Sacchetti, 2015; Fulton et al. 2015; Borzaga and Sacchetti 2015).

8. DIFFERENT TYPES OF VALUE

The interest in discussing governance structures, coordination mechanisms, and functions aims at defining the dimensions of a framework that relates governance with the outcomes of the organization. In particular, we are suggesting that a governance model is assessed according to its effects on the relevant publics. As argued by Dewey (1927), the public includes those who are appreciably under the influence of an act. The wider the effects that the organisation's activities produce, the larger will be the groups of people which constitute its publics. In order to appreciate broad public impacts, a clarification on the idea of produced effects is needed. Organisations have objectives that are normally reflected in general terms in their mission statements. A mission can tell us something about desired aims, but less on the actual ends achieved. These can be accounted for by looking at outputs, outcomes and impacts beyond financial results, a practice that social accounting has developed as the rights of stakeholders to be informed gained importance (Gray, 2001).

With respect to outcomes and impacts, accounting for outputs or, in other words, for the products and services, can be relatively easier. In fact, the bylaw is that organisations report on their outputs (Bagnoli and Megali, 2011). Outcomes require a diverse level of analysis of the effects produced by an organisation. They are - from the point of view taken in this paper - the result not only of desired aims, but the actual effects produced on specific publics, which are obtained through actions mediated by governance. In this sense, reinvestment in the community, innovation and client satisfaction, worker wellbeing can be considered as outcomes. Likewise, social relations, polluting emissions or labour exploitation can produce effects on specific categories of publics (namely neighbourhoods and workers). It would be misleading, however, to confine effects to those produced directly on publics. This is why impacts should be considered. Impacts are identified as broader effects on the context (Borzaga and Sacchetti, 2015). While, however, well-defined and quantifiable features can be easily accounted for, other aspects such as the quality of social capital and human capital can be more difficult to assess.

Despite measurement difficulties, the point of relating governance with its effects is to be able to anticipate - to some extent - the effects produced based on the observation of governance features. It is, in a way a deductive approach, which we see as complementary to the measurement of effects.

The coordination mechanism impacts on the capacity of an organization to use resources effectively and efficiently in pursuit of its overarching aims. First, when the prevailing mechanism of coordination is the contract, effects can be assessed by verifying compliance with contractual specifications and requirements. Achieving private goals is the pivotal object and the measure of success for the exchange. Typically, the publics and their interests, and likewise broader societal effects are not included in decision-making and consequently in the assessment. The number of actors involved in the same transaction is generally small and it almost correspond to the parties involved in the market exchange. Outputs and outcomes relate to the economic value produced, which is straightforward to evaluate. Outcomes do not account for parties who are external to the contract (publics), or for wider societal impact, assuming that the transaction involves exclusively two parties and the relation is one shot. Everything else is

treated as an externality. When the transaction occurs at arm-length, moreover, even the effects on the two parties are partially accounted for, since future implications of current arrangements may not be contemplated in the contract.

Second, coordination by means of authority within an organisational hierarchy can provide a longer-term perspective. This may favour specific investments and outcomes such as product or process innovation, which would be difficult to achieve through contracts. Albeit the exclusive governance structure aims at favouring the objectives of a restricted group of people at the top of the hierarchy, the mission and actions taken are not private in a strict sense, since their effects (voluntary or involuntary) touch upon a large number of publics, such as shareholders in investor-owned firms, and on society more broadly (Sacchetti, 2015). As suggested by our framework, this is likely to generate societal failures.

Intermediate governance solutions can be inspired by corporate responsibility, applied when organizations are interested in some degree of involvement, whilst retaining exclusive access to decision making and use of authority. As an example, consider the philanthropic organization of factories as in the experience of Olivetti (Molteni, 2006). In such cases outcomes and impacts are intentionally generated by the decision-maker's ex-ante recognition of the needs of the weakest publics (e.g. workers and their families).

Finally, in case of inclusive governance, coordination and structures embody awareness of the effects generated on specific publics and on society more broadly, taking into explicit account both outcomes and impacts (Sacchetti, 2015). If only outputs are taken into account, these firms may appear less efficient, due to assumed higher governance costs (Hansmann, 1996). By extending the evaluation of effects to outcomes and broader impacts, however, inclusive governance structure may be argued to be in a position to activate resources from participating publics and produce durable networks based on reciprocity and trust, as well as innovative outcomes. These solutions can be hypothesised to be closer to users' needs than those produced by other governance models. The argument is based on the advantages of adopting organisational processes based on cooperation, which activate inclusion and empowerment, communication, knowledge and information sharing (Borzaga and Sacchetti, 2015).

CONCLUDING REMARKS

Governance is not neutral to an organisation's outcomes and wider impacts. The frame introduced here aims at understanding the complexity of governance structures and their mixed nature. With the aim to appreciate differences between and among different models, our framework highlights structures, mechanisms, processes and their underpinning functions. This can provide an important contribution to governance literature, by showing that it is possible to distinguish between multiple models. In addition the framework gives them simultaneous consideration, contrary to existing accounts where market and hierarchies have polarised scholarly attention. Second, we show how in each governance model it is possible to find a prevailing coordination mechanism. The other mechanisms are also present albeit in a marginal way. Third, the governance model reflects the level of involvement and empowerment of publics.

The general lesson is that a model should not be considered superior to another a priori. Each model is designed to respond to certain contextual conditions and needs. However, as Ostrom (1990) notices, the application of a model to a contextual situation that requires a different solution may provoke negative effects for publics and society. Market is more efficient when the publics reached by the effects of the transaction are limited and parties are not damaged by contract incompleteness. Hierarchy is necessary to manage resources by applying coordination rules (whether these are the result of cooperative decision-making or of authority). Inclusive governance is suitable when the service produced is complex and requires a high degree of legitimisation and knowledge input from publics, whose interests would otherwise be damaged by the risk associated with contract incompleteness or by the pursuit of exclusive interests (Borzaga and Sacchetti, 2015).

Albeit this work brings together a variety of themes, thus offering a comprehensive approach to governance, it does not cover applications. Further research in this direction can contribute to the construction of empirical support for the relations identified by the framework, between resource integration driving forces, their supporting governance structures and effects.

Acknowledgments

The authors would like to thank Carlo Borzaga and Ermanno Tortia for their scholarship and inputs on the themes addressed in this work. The writing of this paper has been supported by the British Academy/Leverhulme grant nr. SG150560 on “Assessing governance models of healthcare social enterprises.” Usual disclaimers apply.

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